

IMPASSE WITH ICELAND OVER 1951 DEFENSE
AGREEMENT

- I. Serious impasse with Iceland over
American air base
 - A. Jeopardizes negotiations, now in
fifth month, for revising im-
plementation of 1951 Agreement.
 - B. Raises danger of Agreement itself
being denounced by Iceland.
- II. Parliament adjourns on 14 April for
Easter and Foreign Minister Gudmundsson
considers he must make status report
on negotiations for
 - A. Reducing contacts between Icelan-
ders and the 3900 American troops
 - B. Gradually eliminating American
contractors and several hundred
construction workers. [REDACTED]
- III. Gudmundsson's failure to make
satisfactory statement could cause
fall of Conservative-Progressive

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coalition, because

- A. All political parties very sensitive on impact of Americans on Iceland's culture and society
- B. Iceland now less concerned than before over ties to West
 - 1. Relaxation of East-West tension
 - 2. Two-year trade agreement with USSR on 1 August provided:
 - a. Icelandic exports in first year amounting to \$10,000,000--or 25 percent of all 1952 exports
 - b. Icelandic imports of \$6,000,000--or 10 percent of all 1952 imports.
 - c. USSR to supply key commodities, e.g.

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fuel oil
petroleum, cement, pipe-
and buy surplus fish.

IV. Any successor government would probably
take even stronger line on base issue

A. In a showdown, Iceland could re-
fer 1951 bilateral agreement to
NATO for "recommendation."

1. Two governments would then
be given 6 months to reach
understanding.

2. Failing understanding,
Iceland could then declare
agreement abrogated at end
of 12 months.